

**VILLAGE OF KALKASKA, MICHIGAN**  
**REPORT ON FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2005**

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Village of Kalkaska</b>	County <b>Kalkaska</b>
Audit Date <b>2/28/05</b>	Opinion Date <b>5/25/05</b>	Date Accountant Report Submitted to State: <b>8/31/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

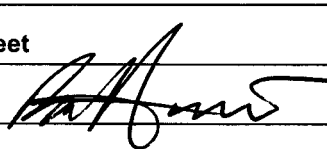
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>Harris Group, Certified Public Accountants</b>			
Street Address <b>1107 E. 8th Street</b>	City <b>Traverse City</b>	State <b>MI</b>	ZIP <b>49686</b>
Accountant Signature 		Date <b>8/31/05</b>	

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**Village of Kalkaska**  
**Management's Discussion and Analysis**  
**February 28, 2005**

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This section of Village of Kalkaska's annual financial report presents its discussion and analysis of the government's financial performance during the year ending February 28, 2005. In future years, this section will emphasize current-year results in comparison with the prior year. Please be advised that this report does not present some prior year data, for it was not readily available. The lack of prior year data is due to this reporting period being the first time the district implemented the reporting changes called for by GASB Statement No. 34.

**Financial Highlights**

The Village of Kalkaska utilized the 2004-05 fiscal year to improve the organization of its finances by carefully tracking receipts and expenditures throughout the year. The budget was amended numerous times to provide the Council with a clearer picture of where the Village was situated financially during the year.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to Village of Kalkaska's basic financial statements. Village of Kalkaska's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of Village of Kalkaska's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of Village of Kalkaska's assets and liabilities, with the differences between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Village of Kalkaska is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Both the government-wide financial statements distinguish functions of Village of Kalkaska that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Village of Kalkaska include general government, public safety, health and welfare, recreation and culture and other services. The business-type activities of Village of Kalkaska include public and regional transportation, commissary inmate trust and purchasing of delinquent taxes.

The government-wide financial statements include not only Village of Kalkaska itself (known as the primary government), but also the legally separate Downtown Development Authority for which Village of Kalkaska is financially accountable. Financial information for the component unit is reported separately from the financial information presented for the primary government itself.

Village of Kalkaska  
Management's Discussion and Analysis  
February 28, 2005

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**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Village of Kalkaska, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Village of Kalkaska can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governments' near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Village of Kalkaska maintains 7 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, major street fund, local street fund and debt service fund, each of which are considered to be major funds. Data from the other 3 governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Village of Kalkaska adopts an annual appropriated budget for its general and special revenue funds. A budgetary comparison statement has been provided for the general and special revenue funds to demonstrate compliance with this budget.

**Proprietary funds.** Village of Kalkaska maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Village of Kalkaska uses enterprise funds to account for its Water and Sewer Funds

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each enterprise funds, all of which are considered to be major funds of Village of Kalkaska.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Village of Kalkaska's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Village of Kalkaska**  
**Management's Discussion and Analysis**  
**February 28, 2005**

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**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Village of Kalkaska, assets exceeded liabilities by \$1,575,597 as of February 28, 2005.

A large portion of Village of Kalkaska's net assets is its investment in capital assets, less any debt to acquire those assets that is still outstanding. Village of Kalkaska uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although Village of Kalkaska's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from future operations, since the capital assets themselves cannot be used to liquidate these liabilities.

**VILLAGE OF KALKASKA**  
**NET ASSETS**  
**FEBRUARY 28, 2005**

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 819,036	\$ 1,552,009	\$ 2,371,045
Capital assets	956,542	9,142,029	10,098,571
Total assets	<u>\$ 1,775,578</u>	<u>\$ 10,694,038</u>	<u>\$ 12,469,616</u>
Long-term liabilities outstanding	\$ 130,000	\$ 6,450,162	\$ 6,580,162
Other liabilities	69,981	214,272	284,253
Total liabilities	<u>199,981</u>	<u>6,664,434</u>	<u>6,864,415</u>
Net assets:			
Invested in capital assets, net of related debt	780,899	2,582,867	3,363,766
Restricted	14,670	186,284	200,954
Unrestricted	780,028	1,260,453	2,040,481
Total net assets	<u>1,575,597</u>	<u>4,029,604</u>	<u>5,605,201</u>
Total liabilities and net assets	<u>\$ 1,775,578</u>	<u>\$ 10,694,038</u>	<u>\$ 12,469,616</u>

The Village's net assets increased by \$457,672 during the 2004-05 fiscal year. This was due to the acquisition of equipment and the increase in the sewer fund for the expansion of the clean water plant in the future.

Village of Kalkaska  
Management's Discussion and Analysis  
February 28, 2005

VILLAGE OF KALKASKA  
CHANGES IN NET ASSETS  
FOR THE YEAR ENDED FEBRUARY 28, 2005

	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 35,116	\$ 1,000,782	\$ 1,035,898
Operating grants and contributions	208,047		208,047
Capital grants and contributions		385,366	385,366
General revenues:			
Property taxes	596,107		596,107
State shared revenues	196,600		196,600
Investment earnings	42,395	12,045	54,400
Miscellaneous revenues	14,317	3,879	18,196
Gain on sale of assets	22,404		22,404
Total revenues	1,114,986	1,402,072	2,517,018
Expenses:			
Governmental activities:			
Judicial	43,062		43,062
General government	123,447		123,447
Public safety	456,453		456,453
Public works	315,951		315,951
Recreation	18,295		18,295
Other	62,493		62,493
Interest on long-term debt	10,217		10,217
Water fund		277,464	277,464
Sewer fund		719,961	719,961
Total expenses	1,029,918	997,425	2,027,343
Increase in net assets before transfers	85,068	404,647	489,672
Transfers in (out)	(32,000)		(32,000)
Increase (decrease) in net assets	53,068	404,647	457,672
Net assets, beginning	1,522,529	3,624,957	5,147,486
Net assets, ending	\$ 1,575,597	\$ 4,029,604	\$ 5,605,201

Property tax revenues increased by \$9,200. However, revenue sharing decreased by \$19,000. Health care insurance costs increased by \$20,000 causing the Village to maintain a close watch on all other expenses through the year.



**Village of Kalkaska**  
**Management's Discussion and Analysis**  
**February 28, 2005**

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**Financial Analysis of the Government's Funds**

As noted earlier, Village of Kalkaska uses fund accounting to insure and demonstrate compliance with finance-related requirements.

**Governmental funds.** The focus of Village of Kalkaska's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Village of Kalkaska's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of February 28, 2005, Village of Kalkaska's governmental funds reported combined ending fund balances of \$703,211. Approximately 98% of this total constitutes unreserved fund balance, which is available for spending at Village of Kalkaska's discretion. The remainder of the fund balance is reserved for specific commitments.

The general fund is the chief operating fund of Village of Kalkaska. As of February 28, 2005, unreserved fund balance of the general fund was \$146,306. As a measure of liquidity, it may be useful to compare the unreserved fund balance to the total fund expenditures. Unreserved fund balance represents 18 percent of the total general fund expenditures. In other words, the general fund could operate with out new revenues for approximately three months.

The fund balance of Village of Kalkaska's general fund decreased by \$41,317 during the current fiscal year. Key factors in this reduction are as follows:

The Village purchased a new police car during the year. Revenue sharing decreased by \$19,000. Tax revenues decreased by \$29,000, due to lowering the millage rate. Health care costs increased by \$20,000 for the year. Money was set aside for future health insurance premium payments. And the Village increased its share of the payments for employee retirement accounts to the Municipal Employees Retirement System.

**Proprietary funds.** Village of Kalkaska's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the proprietary funds at February 28, 2005 were \$1,260,453.

**General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were relatively minor (\$48,858 increase in appropriations) and can be briefly summarized as follows:

Funds were appropriated for future health insurance premiums. There was an increase in Medicare insurance reimbursements. There was an increase in the reimbursements for prescriptions.

**Village of Kalkaska  
Management's Discussion and Analysis  
February 28, 2005**

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**Capital Asset and Debt Administration**

**Capital assets.** Village of Kalkaska's investment in capital assets for its governmental and business type activities as of February 28, 2005, amounts to \$10,098,571 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

The Village purchased a new police vehicle and a backhoe. A 1977 loader and 1972 backhoe were disposed of.

**Long-term debt.** At February 28, 2005, Village of Kalkaska had total bonded debt outstanding of \$6,332,000 and notes payable of \$402,805.

Major debt transactions during the current fiscal year included the following:

The Village has a long-term loan for the Clean Water Plant. Repayment of a loan for construction of the IDC II Park was to start in May, 2005; however, the date has been pushed back a year to allow for further marketing of the park. The loan amount will be reduced by ½ if sales of lots in the park result in the creation of new jobs to Michigan. The loan must be repaid by 2011.

**Economic Factors and Next Years Budgets and Rates**

The 2005-06 budget was prepared with a slight increase in income due to development activity and property taxes. Plans to reduce health care costs are underway, and all expenditures are examined to verify their need to fulfill the mission of the Village.

**Requests for Information**

This financial report is designed to provide a general overview of Village of Kalkaska's finances for all those with an interest in the government's finances. Questions concerning any of the financial information should be address to the Village Manager, 109 Fourth Street, Kalkaska, MI 49646.



Certified Public Accountants

**Independent Auditor's Report**

Members of the Village Council  
Village of Kalkaska  
Kalkaska, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the Village of Kalkaska, as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Kalkaska management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the report of other auditors, provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Kalkaska, as of February 28, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Village of Kalkaska has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of February 28, 2005

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2005 on our consideration of the Village of Kalkaska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Village of Kalkaska  
Independent Auditor's Report

The managements discussion and analysis and required budgetary comparison information identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally if inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Kalkaska's, basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*HARRIS Group*

Certified Public Accountants  
May 25, 2005

**FINANCIAL SECTION**

**VILLAGE OF KALKASKA  
STATEMENT OF NET ASSETS  
FEBRUARY 28, 2005**

	Governmental Activities	Business-type Activities	Total	Component Unit Downtown Development Authority
<b>ASSETS</b>				
Cash	\$ 673,562	\$ 1,244,742	\$ 1,918,304	\$ 308,890
Receivables:				
Taxes	371		371	
Accounts		92,424	92,424	
Due from:				
Other governmental units	6,922		6,922	38,410
State	101,357		101,357	
Other funds	18,623		18,623	
Inventories of supplies	1,793	9,502	11,295	
Prepaid expenses	16,408	19,057	35,465	
Restricted assets - cash		186,284	186,284	
Capital assets:				
Land	41,421	87,934	129,355	
Buildings	135,906	62,661	198,567	
Improvements - land and buildings	929,923	10,551,139	11,481,062	
Equipment	973,593	226,023	1,199,616	
Infrastructure	32,728		32,728	
Construction in progress		897,451	897,451	
Accumulated depreciation	(1,157,029)	(2,683,179)	(3,840,208)	
<b>TOTAL ASSETS</b>	<b>\$ 1,775,578</b>	<b>\$ 10,694,038</b>	<b>\$ 12,469,616</b>	<b>\$ 347,300</b>
<b>LIABILITIES:</b>				
Accounts payable	\$ 2,048	\$ 52,628	\$ 54,676	\$
Checks written in excess of deposits	6,257		6,257	
Current portion of bonds and notes payable	15,000	109,000	124,000	
Accrued liabilities	13,295	49,944	63,239	
Due to other governmental units	350		350	
Due to other funds		2,700	2,700	727
Deferred revenues	2,388		2,388	
Notes payable	30,643	277,529	308,172	
Capital lease payable		94,633	94,633	
Bonds payable	130,000	6,078,000	6,208,000	
<b>TOTAL LIABILITIES</b>	<b>199,981</b>	<b>6,664,434</b>	<b>6,864,415</b>	<b>727</b>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	780,899	2,582,867	3,363,766	
Net assets:				
Reserved	14,670	186,284	200,954	346,573
Unreserved	780,028	1,260,453	2,040,481	
<b>TOTAL FUND EQUITY</b>	<b>1,575,597</b>	<b>4,029,604</b>	<b>5,605,201</b>	<b>346,573</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 1,775,578</b>	<b>\$ 10,694,038</b>	<b>\$ 12,469,616</b>	<b>\$ 347,300</b>

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED FEBRUARY 28, 2005**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental activities:				
Legislative	\$ 43,062	\$	\$	\$
General government	123,447	9,299		
Public safety	456,453	11,979	1,128	
Public works	315,951	13,838	206,919	
Recreation	18,295			
Other	62,493			
Interest on long term debt	10,217			
<b>Total governmental activities</b>	<b>1,029,918</b>	<b>35,116</b>	<b>208,047</b>	
Business-type activities:				
Water fund	277,464	217,360		385,366
Sewer fund	719,961	783,422		
<b>Total business-type activities</b>	<b>997,425</b>	<b>1,000,782</b>		<b>385,366</b>
<b>Total primary government</b>	<b>\$ 2,027,343</b>	<b>\$ 1,035,898</b>	<b>\$ 208,047</b>	<b>\$ 385,366</b>
Component units:				
Downtown Development Authority	\$ 8,298			

General Revenues:  
Property Taxes – general purposes  
Property Taxes – debt  
State Shared Revenue  
Unrestricted investment earnings  
Miscellaneous revenues  
Loss on disposal of fixed assets  
Transfers

Total general revenues and transfers

Change in net assets

Net assets – beginning

Net assets – ending

The accompanying notes are an integral part of these statements.

Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	Downtown Development Authority
\$ (43,062)	\$	\$ (43,062)	\$
(114,148)		(114,148)	
(443,346)		(443,346)	
(95,194)		(95,194)	
(18,295)		(18,295)	
(62,493)		(62,493)	
(10,217)		(10,217)	
(786,755)		(786,755)	
	325,262	325,262	
	63,461	63,461	
	388,723	388,723	
<u>\$ (786,755)</u>	<u>\$ 388,723</u>	<u>\$ (398,032)</u>	
			<u>\$ (8,298)</u>
580,071		580,071	100,021
16,036		16,036	
196,600		196,600	
42,395	12,045	54,440	4,563
14,317	3,879	18,196	280
22,404		22,404	
(32,000)		(32,000)	
839,823	15,924	855,747	104,864
53,068	404,647	457,715	96,566
1,522,529	3,624,957	5,147,486	250,007
<u>\$ 1,575,597</u>	<u>\$ 4,029,604</u>	<u>\$ 5,605,201</u>	<u>\$ 346,573</u>



**VILLAGE OF KALKASKA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
FEBRUARY 28 2005**

	General Fund	Major Street	Local Street	Debt Service	Other Governmental Funds	Total
<b>ASSETS</b>						
Cash	\$ 97,358	\$ 300,125	\$ 160,038	\$	\$ 30,638	\$ 588,159
Receivables:						
Taxes			371			371
Due from:						
Other governmental units				6,922		6,922
State	61,063	29,078	11,216			101,357
Other funds	15,792		17,240	2,192		35,224
Inventory of supplies	1,793					1,793
Prepaid expenses	9,788		232			10,020
<b>TOTAL ASSETS</b>	<u>\$ 185,794</u>	<u>\$ 329,203</u>	<u>\$ 189,097</u>	<u>\$ 9,114</u>	<u>\$ 30,638</u>	<u>\$ 743,846</u>
<b>LIABILITIES &amp; FUND EQUITY</b>						
<b>LIABILITIES:</b>						
Accounts payable	\$ 1,943	\$	\$	\$	\$ 105	\$ 2,048
Checks written in excess of deposits				6,257		6,257
Accrued liabilities	10,517	1,995	479			12,991
Due to other funds	14,540		1,937		124	16,601
Due to other governmental units	350					350
Deferred revenue	557		1,831			2,388
<b>TOTAL LIABILITIES</b>	<u>27,907</u>	<u>1,995</u>	<u>4,247</u>	<u>6,257</u>	<u>229</u>	<u>40,635</u>
<b>FUND EQUITY:</b>						
Fund balances:						
Reserved for inventory	1,793					1,793
Reserved for debt service				2,857		2,857
Reserved for prepaid expenses	9,788		232			10,020
Unreserved:						
Undesignated	146,306	327,208	184,618		30,409	688,541
<b>TOTAL FUND EQUITY</b>	<u>157,887</u>	<u>327,208</u>	<u>184,850</u>	<u>2,857</u>	<u>30,409</u>	<u>703,211</u>
<b>TOTAL LIABILITIES &amp; FUND EQUITY</b>	<u>\$ 185,794</u>	<u>\$ 329,203</u>	<u>\$ 189,097</u>	<u>\$ 9,114</u>	<u>\$ 30,638</u>	<u>\$ 743,846</u>

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA  
RECONCILIATION OF TOTAL GOVERNMENT FUND BALANCE  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
FEBRUARY 28, 2005**

*Amounts reported for governmental activities in the statement of net assets are different because:*

Total Governmental Fund Balances	\$ 703,211
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Capital assets	2,113,571
Accumulated depreciation	(1,157,029)
Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets	91,487
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Notes payable	(30,643)
Bonds payable	(145,000)
Net Assets of Governmental Activities	<u>\$ 1,575,597</u>

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	General Fund	Major Street	Local Street	Debt Service	Other Governmental Funds	Total
<b>REVENUES:</b>						
Taxes	\$ 544,076	\$	\$ 35,995	\$ 16,036	\$	\$ 596,107
State grants	196,600	151,552	55,367		1,128	404,647
Contributions from local units	5,900					5,900
Charges for services	3,399	6,592				9,991
Fines	11,979					11,979
Interest, rents, royalties	35,130	2,607	2,073		51	39,861
Other	2,945	24	7,503			10,472
<b>TOTAL REVENUES</b>	<b>800,029</b>	<b>160,775</b>	<b>100,938</b>	<b>16,036</b>	<b>1,179</b>	<b>1,078,957</b>
<b>EXPENDITURES:</b>						
Current:						
Legislative	41,876					41,876
General government	123,581					123,581
Public safety	453,475				1,865	455,340
Public works	91,559	115,965	67,021			274,545
Recreation	14,665					14,665
Other	60,770					60,770
Debt service:						
Principal	5,338			15,000		20,338
Interest	1,614			8,603		10,217
<b>TOTAL EXPENDITURES</b>	<b>792,878</b>	<b>115,965</b>	<b>67,021</b>	<b>23,603</b>	<b>1,865</b>	<b>1,001,332</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>7,151</b>	<b>44,810</b>	<b>33,917</b>	<b>(7,567)</b>	<b>(686)</b>	<b>77,625</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating transfers in (out)	(48,468)			16,468		(32,000)
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER FINANCIAL USES</b>	<b>(41,317)</b>	<b>44,810</b>	<b>33,917</b>	<b>8,901</b>	<b>(686)</b>	<b>45,625</b>
<b>FUND BALANCE, beginning</b>	<b>199,204</b>	<b>282,398</b>	<b>150,933</b>	<b>(6,044)</b>	<b>31,095</b>	<b>657,586</b>
<b>FUND BALANCE, ending</b>	<b>\$ 157,887</b>	<b>\$ 327,208</b>	<b>\$ 184,850</b>	<b>\$ 2,857</b>	<b>\$ 30,409</b>	<b>\$ 703,211</b>

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED FEBRUARY 28, 2005**

*Amounts reported for governmental activities in the statement of net assets are different because:*

Net change in fund balance – total governmental funds	\$ 45,625
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay recorded as a capital expense	67,684
Depreciation recorded as an expense	(56,252)
Internal service funds are used by management to charge the costs of fleet management to individual funds. The net revenue of certain activities of internal service funds is reported with Governmental activities	(24,327)
Repayment of bond and note principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	20,338
	<hr/>
Change in net assets of governmental activities	<u>\$ 53,068</u>

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
FEBRUARY 28, 2005**

	Business-type Activities – Enterprise Funds			Governmental Activities - Internal Service Fund
	Water Fund	Sewer Fund	Total	Equipment
<b>ASSETS</b>				
Cash	\$ 181,667	\$ 1,063,075	\$ 1,244,742	\$ 85,403
Accounts receivable	30,405	62,019	92,424	
Due from state				
Inventory of supplies	6,669	2,833	9,502	
Prepaid expenses	569	18,488	19,057	6,388
Restricted Assets:				
Cash	72,163	114,121	186,284	
Land		87,934	87,934	
Buildings		62,661	62,661	
Construction work in progress	463,208	434,243	897,451	
Improvements other than buildings	2,637,344	7,913,795	10,551,139	
Machinery and equipment	34,400	191,623	226,023	515,858
Accumulated depreciation	(1,166,136)	(1,517,043)	(2,683,179)	(379,411)
<b>TOTAL ASSETS</b>	<b>\$ 2,260,289</b>	<b>\$ 8,433,749</b>	<b>\$ 10,694,038</b>	<b>\$ 228,238</b>
<b>LIABILITIES &amp; FUND EQUITY</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 3,500	\$ 49,128	\$ 52,628	\$
Accrued liabilities	5,719	44,225	49,944	304
Due to other funds	2,700		2,700	
Notes payable	68,783	208,746	277,529	
Capital lease payable		94,633	94,633	
Bonds payable – short term	35,300	73,700	109,000	
Revenue bonds payable	427,500	5,650,500	6,078,000	
<b>TOTAL LIABILITIES</b>	<b>543,502</b>	<b>6,120,932</b>	<b>6,664,434</b>	<b>304</b>
<b>NET ASSETS:</b>				
Invested in capital assets – net of related debt	1,437,233	1,145,634	2,582,867	136,447
Restricted for debt service	72,163	114,121	186,284	
Unrestricted	207,391	1,053,062	1,260,453	91,487
<b>TOTAL NET ASSETS</b>	<b>1,716,787</b>	<b>2,312,817</b>	<b>4,029,604</b>	<b>227,934</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 2,260,289</b>	<b>\$ 8,433,749</b>	<b>\$ 10,694,038</b>	<b>\$ 228,238</b>

**VILLAGE OF KALKASKA  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	Business-type Activities – Enterprise Funds			Governmental Activities - Internal Service Fund
	Water Fund	Sewer Fund	Total	Equipment
OPERATING REVENUES:				
Charges for services	\$ 217,360	\$ 783,422	\$ 1,000,782	\$ 64,224
Interest	3,456	8,589	12,045	2,534
<b>TOTAL OPERATING REVENUES</b>	<b>220,816</b>	<b>792,011</b>	<b>1,012,827</b>	<b>66,758</b>
OPERATING EXPENSES				
Personal services	117,324	96,600	213,924	44,625
Contractual services	8,690	260,527	269,217	10,787
Supplies	4,193	1,900	6,093	14,612
Materials	31,276	9,379	40,655	
Heat, light, and maintenance	19,711	5,294	25,005	
Repairs and maintenance	1,534	5,256	6,790	15,433
Equipment rental	4,627		4,627	
Depreciation	63,846	83,286	147,132	31,877
<b>TOTAL OPERATING EXPENSES</b>	<b>251,201</b>	<b>462,242</b>	<b>713,443</b>	<b>117,334</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(30,385)</b>	<b>329,769</b>	<b>299,384</b>	<b>(50,576)</b>
NON-OPERATING INCOME (EXPENSES):				
Interest and fiscal charges	(26,263)	(257,719)	(283,982)	
Gain on sale of fixed assets				22,404
Grant revenue	385,366		385,366	
Other revenue	1,242	2,637	3,879	3,845
<b>TOTAL NON-OPERATING INCOME (EXPENSES)</b>	<b>360,345</b>	<b>(255,082)</b>	<b>105,263</b>	<b>26,249</b>
<b>CHANGE IN NET ASSETS</b>	<b>329,960</b>	<b>74,687</b>	<b>404,647</b>	<b>(24,327)</b>
<b>NET ASSETS, beginning</b>	<b>1,386,827</b>	<b>2,238,130</b>	<b>3,624,957</b>	<b>252,261</b>
<b>NET ASSETS, ending</b>	<b>\$ 1,716,787</b>	<b>\$ 2,312,817</b>	<b>\$ 4,029,604</b>	<b>\$ 227,934</b>

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED FEBRUARY 28, 2005**

	Business-type Activities – Enterprise Funds			Governmental Activities - Internal Service Fund
	Water Fund	Sewer Fund	Total	Equipment
Cash Flows From Operating Activities:				
Other revenues and grants	\$ 1,241	\$ 2,637	\$ 3,878	\$ 3,845
Cash received from customers	230,231	789,856	1,020,087	64,224
Cash paid to suppliers and employees	(188,730)	(685,699)	(874,429)	(84,914)
Net Cash Provided By Operating Activities	42,742	106,794	149,536	(16,845)
Cash Flows From Capital And Related Financing Activities:				
Principal paid on long-term debt	(30,300)	(97,593)	(127,893)	
Principal received on long-term debt		642,000	642,000	
Capital Grants	385,366		385,366	
Interest paid on long-term debt	(26,263)	(257,719)	(283,982)	
Acquisition of plant and bond covenant	(402,436)	(339,961)	(742,397)	(61,500)
Increase in restricted cash – bond covenant	(10,833)	(572)	(11,405)	
Net Cash (Used In) Capital And Related Financing Activities	(84,466)	(53,845)	(138,311)	(61,500)
Cash Flows From Investing Activities:				
Interest on investments	3,456	8,589	12,045	2,534
Net Cash Provided By Investing Activities	3,456	8,589	12,045	2,534
Net Increase (Decrease) in Cash & Cash Equivalents	(38,268)	61,538	23,270	(75,811)
Cash & Cash Equivalents, beginning	219,935	1,001,537	1,221,472	138,645
Cash & Cash Equivalents, ending	\$ 181,667	\$ 1,063,075	\$ 1,244,742	\$ 85,403

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2005  
(Continued)**

	<u>Business-type Activities – Enterprise Funds</u>			<u>Governmental Activities - Internal Service Fund</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>	<u>Equipment</u>
Reconciliation of Net Operating Income to Net Cash Provided By Operating Activities:				
Net Operating Income (Loss)	\$ (30,385)	\$ 329,769	\$ 299,384	\$ (50,576)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	63,846	83,286	147,132	31,877
Other revenue and grants	1,242	2,637	3,879	3,845
Decrease (increase) in:				
Receivables	12,871	6,434	19,305	1,680
Inventories	(254)	(42)	(296)	
Prepaid expenses	1,461	2,657	4,118	
Increase (decrease) in:				
Accounts payable and accrued liabilities	(2,583)	(309,358)	(311,941)	(1,137)
Interest Income classified as an investing activity	(3,456)	(8,589)	(12,045)	(2,534)
Net Cash Provided By Operating Activities	<u>\$ 42,742</u>	<u>\$ 106,794</u>	<u>\$ 149,536</u>	<u>\$ (16,845)</u>

The accompanying notes are an integral part of these statements.



**VILLAGE OF KALKASKA  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
FEBRUARY 28, 2005**

	<u>Trust and Agency</u>
ASSETS	
Cash	\$ 457,371
Amounts to be provided by other funds	<u>34,051</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 491,422</u></b>
LIABILITIES	
Accounts payable	\$
Accrued liabilities	63,840
Due to other funds	15,195
Amount provided by other funds for retiree insurance	<u>412,387</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 491,422</u></b>

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Introduction**

The accounting policies of the Village of Kalkaska (Village) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of significant accounting policies by the Village.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basis Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. For the first time the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Village's activities, including infrastructure (roads, sidewalks, etc.)
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Village has elected to implement the provision of Statement No. 34 in the current year, and has decided to record infrastructure on a prospective basis.

**B. Reporting Entity**

The Village of Kalkaska was organized in 1887 and covers an area of approximately two square miles. The Village operates under an elected Council (7 members) and provides services to its more than 2,226 residents in many areas including law enforcement, street development and maintenance, parks and sewer and water services.

In evaluating how to define the Village for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the Village's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Village and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Village and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Village is able to exercise oversight responsibilities. Based upon the application of these criteria, no required organizations have been omitted from these financial statements.

**VILLAGE OF KALKASKA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**C. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

**D. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when a payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**VILLAGE OF KALKASKA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**D. Measurement Focus, Basis of Accounting and Basis of Presentation - continued**

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in another fund.

The *major street fund* accounts for the maintenance and construction of the major street system.

The *local street fund* accounts for the maintenance and construction of the local street system.

The *debt service fund* reports the activities of Downtown Development Authority Bonds which the Village has a legal responsibility for repayment.

The government reports the following major proprietary funds:

The *Water fund* accounts for the revenue and expenses of operating the Village's water distribution system.

The *Sewer fund* accounts for the revenue and expenses of operating the Village's sewer collection system.

Additionally, the government reports the following fund types:

The *internal service fund* is established for the financing of goods and services provided by one department to other departments of the Village on a cost reimbursement basis. The Village's Equipment Fund is an Internal Service Fund.

The *agency fund* is custodial in nature and does not present the results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The government has not elected to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

**VILLAGE OF KALKASKA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**D. Measurement Focus, Basis of Accounting and Basis of Presentation - continued**

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the governments enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**E. Budgets**

Annual operating budgets are adopted by the Village Council for the General, Special Revenue and Debt Service Funds in accordance with Public Act 621 of 1978.

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. At the first meeting in February, the Village Manager submits to the Village Council a proposed operating budget for the year commencing the following March 1st. The operating budget includes proposed expenditures and the means of financing them for the General and Special Revenue Funds.
- b. Public hearings are conducted at the Village Offices to obtain taxpayer comments.
- c. Prior to February 28, the budget is legally enacted on a departmental (activity) basis through passage of a resolution.
- d. The President or their designee is authorized to transfer budgeted amounts within departmental appropriation accounts, however, any revisions that alter the total expenditures of any department must be approved by the Village Council.
- e. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Also, all budgets are adopted on a basis consistent with generally accepted accounting principles.
- f. Budget appropriations lapse at year end.
- g. The original budget was amended during the year in compliance with the Village procedures and applicable state laws. The budget to actual expenditures in the financial statements represent the amended budgetary expenditures of the Village Council.

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**F. Encumbrance System**

The Village does not use an encumbrance system.

**G. Assets and Liabilities**

**1. Cash and investments**

Michigan Compiled Laws, Section 129.91, authorizes the Village of Kalkaska to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village Council Board has designated two banks for the deposit of Village funds.

The Village's deposits and investments are in accordance with statutory authority.

**2. Accounts Receivable**

It is the Village's policy to place delinquent sewer and water bills on the tax rolls on an annual basis.

**3. Inventories**

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis.

**4. Utility Plant In Service and Depreciation**

Utility plant in service of the Enterprise Fund is stated at cost. Depreciation is computed over the estimated useful life of the assets using the straight-line method.

**5. Internal Service Fund Equipment and Depreciation**

Equipment in service of the Internal Service Fund is stated at cost. Depreciation is computer over the estimated useful life of the assets using the straight-line method.

**VILLAGE OF KALKASKA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**G. Assets and Liabilities**

**6. Capital Assets**

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Donated fixed assets are stated at their fair market value on the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

The accounting and financial reporting treatment of a funds is determined by its measurement focus. General capital assets are long-lived assets of the Village as a whole. Infrastructure such as streets, traffic signals and signs will be capitalized on a prospective basis. The valuation basis for the general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement costs.

Proprietary fund fixed assets are recorded in the respective funds and depreciated using the straight-line method.

Estimated useful lives, in years, for depreciable assets are as follows:

Lift Station	10
Water System	20 – 50
Sewer	25 – 50
Furniture, fixtures, & equipment	5 – 40
Buildings	45
Infrastructure	50
Vehicles	10

**7. Capitalization of Interest on Fixed Assets**

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. As of February 28, 2005, no interest has been capitalized.

**H. Allowance for Doubtful Accounts**

The Village does not use an allowance for doubtful accounts. Any uncollected amount is included in the residents tax billing.

**VILLAGE OF KALKASKA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**I. Accumulated Unpaid Sick Pay Benefit Amounts**

The Village maintains a policy providing sick pay benefits for its employees. Accrued sick pay is being reported in the Trust and Agency Fund. Annually, the operating funds of the Village will fund any change in this liability.

**J. Fund Balance Reserve**

The Fund Balance Reserve, in the fund basis statements, reflects an offset for inventories and prepaid expenses. Under the modified accrual basis of accounting when inventories and prepaid expenses are reported on the financial statements, they are to be equally offset by a fund balance reserve account. This indicates that even though inventories and prepaid expenses are a component of net current assets, they do not represent an "available spendable resource." The fund balance reserves for the various restricted assets indicates that these restricted assets, reported on the financial statements, are designated by the Village Council for a specific use and, therefore, are not an "available spendable resource."

**K. Retained Earnings Reserve**

Retained earnings reserve for restricted assets represent funds or resources that have also been designated by the Village Council for a particular use.

**L. Post Retirement Benefits**

The Village has entered into an arrangement with its employees by which medical benefits will be provided to the employees after retirement. All of the full-time Village employees are eligible to participate and are participating in the plan. The Village is setting aside funds in a Trust and Agency Fund annually to provide monies for this future cost. As of February 28, 2005, there were five employees eligible under the plan. The estimated liability to the Village had not been calculated. Funds available in the Trust and Agency Fund are \$412,387 as of February 28, 2005.



**VILLAGE OF KALKASKA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statement, the Village's actual expenditures and budget expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the activity level.

During the year ended February 28, 2005, the Village incurred expenditures in the General Fund, which were in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Debt Service:			
Principal	\$ 5,226	\$ 5,338	\$ 112
Operating transfers out	16,468	48,468	32,000

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS**

**A. Assets**

**1. Deposits and Investments**

At year end, the Village's deposits and investments were reported in the basis financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
Cash	\$ 673,562	\$ 1,244,742	\$ 457,371	\$ 2,375,675	\$ 308,890
Cash - restricted		186,284		186,284	
Checks written in excess of deposits	(6,257)			(6,257)	
Total Deposits	<u>\$ 667,305</u>	<u>\$ 1,431,026</u>	<u>\$ 457,371</u>	<u>\$ 2,555,702</u>	<u>\$ 308,890</u>

Cash and deposits are recorded in the financial statements as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank deposits	\$ 1,861,247	\$ 308,890
Certificates of deposit	709,164	
Total cash and deposits	<u>\$ 2,570,411</u>	<u>\$ 308,890</u>

**VILLAGE OF KALKASKA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued**

**A. Assets - Continued**

**1. Deposits and Investments - Continued**

At year-end, the carrying amount of the Village's deposits were \$2,864,592 and the bank balance was \$2,879,301 of which \$205,241 was covered by federal depository insurance and \$2,674,060 was uninsured and uncollateralized. The component units deposits are pooled with the primary government to maximize investment earnings.

The Village has no investments that need to be reported by credit risk.

Restrictions are placed upon the use of cash by either a management or legislative action or by covenants in loan agreements or bond ordinances. Restricted cash in the General Fund in the amount of \$44,358 represents legislative or management restrictions for future uses of those funds. Restricted cash in the Enterprise Fund in the amount of \$174,879 represents cash restricted to meet bond covenants and future asset purchases.

For purposes of the statement of cash flows, the Village considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

**2. Property Taxes Receivable and Property Tax Calendar**

	<u>Mills</u>	<u>Adjusted Levy</u>	<u>Collections</u>	<u>Delinquent Real</u>	<u>Unpaid Personal</u>
Village -					
General	11.25	\$ 594,932	\$ 511,742	\$ 82,827	\$ 363
Streets	.75	38,495	32,842	5,653	
Downtown Development					
Authority	1.00	16,116	13,719	2,397	

Details of the property tax calendar are as follows:

Levy date:	December 31 <sup>st</sup> of prior year
Lien date:	July 1 <sup>st</sup>
Due date:	July 1 <sup>st</sup>
Collection date:	July 1 <sup>st</sup> through September 14 <sup>th</sup>

On September 15th, the Village Treasurer turns the delinquent real taxes over to the County Treasurer for collection. Uncollected taxes as of September 14<sup>th</sup> of each year are purchased by the County tax revolving fund and paid to the Village in October of each year.

Property tax revenues are recognized in the fiscal year for which they have been levied and become available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay current period liabilities. The current period referred to here is a period of time not exceeding 60 days.

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued**

**A. Assets - Continued**

**2. Property Taxes Receivable and Property Tax Calendar – Calendar**

The Village's Taxable Value is presented in detail below:

	<u>Village Taxable Value</u>
Real Property	41,374,167
Personal Property	10,280,392
Downtown Development Authority	16,170,883

**3. Capital Assets**

A summary of the changes in the capital assets of the primary government follows:

<b>Primary Government</b>	<u>Balance 2/29/04</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Balance 2/28/05</u>
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 41,421	\$	\$	\$ 41,421
Total capital assets not being depreciated	41,421			41,421
Capital assets, being depreciated				
Buildings	135,906			135,906
Improvements – land and buildings	929,923			929,923
Equipment and vehicles	1,007,043	96,456	129,906	973,593
Infrastructure		32,728		32,728
Total capital assets being depreciated	2,072,872	129,184	129,906	2,072,150
Less accumulated depreciation for:				
Buildings	67,953	2,718		70,671
Improvements – land and buildings	283,291	30,997		314,288
Equipment and vehicles	847,562	54,142	129,906	771,798
Infrastructure		272		272
Total accumulated depreciation	1,198,806	88,129	129,906	1,157,029
Total capital assets, being depreciated, net	874,066	41,055		915,121
Governmental activities capital assets, net	\$ 915,487	\$ 41,055	\$	\$ 956,542

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued**

**A. Assets - Continued**

**3. Capital Assets - continued**

	Balance 2/29/04	Increases/ Transfers	Decreases/ Transfers	Balance 2/28/05
<b>Business-type activities:</b>				
Capital assets, not being depreciated				
Land	\$ 87,934	\$	\$	87,934
Construction in progress	6,110,269	542,054	5,754,872	897,451
Total capital assets not being depreciated	6,198,203	542,054	5,754,872	985,385
Capital assets, being depreciated				
Buildings	62,661			62,661
Improvements – land and buildings	4,796,267	5,754,872		10,551,139
Equipment and vehicles	204,023	22,000		226,023
Total capital assets being depreciated	5,062,951	5,776,872		10,839,823
Less accumulated depreciation for:				
Buildings	30,646	1,392		32,038
Improvements – land and buildings	2,332,373	138,681		2,471,054
Equipment and vehicles	173,028	7,059		180,087
Total accumulated depreciation	2,536,047	147,132		2,683,179
Total capital assets, being depreciated, net	2,526,904	5,629,740		8,156,644
Business-type activities capital assets, net	<u>\$ 8,725,107</u>	<u>\$ 6,171,794</u>	<u>\$ 5,754,872</u>	<u>\$ 9,142,029</u>

Depreciation expense was charged to functions of the primary government as follows:

<b>Governmental Activities:</b>	
Legislative	\$ 1,186
General government	10,866
Public Safety	25,069
Public works	45,655
Recreation	3,630
Other	1,723
Total depreciation expense – governmental activities	<u>\$ 88,129</u>
<b>Business-type activities:</b>	
Water fund	\$ 63,846
Sewer fund	83,286
Total depreciation expense – business-type	<u>\$ 147,132</u>

**VILLAGE OF KALKASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued**

**B. Liabilities**

**1. Bonds Payable**

Bonds payable at February 28, 2005 are as follows:

Governmental activities:

Downtown Development General Obligation Bonds Payable Series 1996 bearing interest from 5.10% to 7.00% and maturing on September 1, 2011	\$ 145,000
--	------------

Business-type activities:

Water Supply and Sewage Disposal System Revenue Bonds – 1996 Issue bearing interest at 5% and maturing on January 1 <sup>st</sup> of each Year until 2015	\$ 525,000
Water supply and Sewage Disposal System Revenue Bonds – 1996 Issue bearing interest from 3.25% to 7.20% and maturing on January 1 <sup>st</sup> of each year until 2016	610,000
Sewage Disposal System Revenue Bonds Series 2002. Interest at 4.5% and maturing in 2042	5,052,000
	6,187,000
Less Current Maturities	109,000
Total Business-type activities	\$ 6,078,000

The annual requirements to amortize long-term obligations outstanding as of February 28, 2005 are as follows:

Year ending February 28,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 15,000	\$ 8,038	\$ 109,000	\$ 288,026
2007	20,000	7,242	111,000	281,486
2008	20,000	6,162	123,000	275,070
2009	20,000	5,082	125,000	268,490
2010	20,000	3,982	137,000	261,780
2011-2015	50,000	4,300	797,000	1,200,550
2016-2020			670,000	1,024,502
2021-2025			750,000	869,628
2026-2030			875,000	689,628
2031-2035			1,000,000	481,502
2036-2040			1,080,000	248,176
2041-2042			630,000	30,376
	\$ 145,000	\$ 34,806	\$ 6,227,000	\$ 5,919,214

**VILLAGE OF KALKASKA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued**

**B. Liabilities – Continued**

**1. Bonds Payable - continued**

For the 1996 Issue, Bond Ordinance No. A-26 requires a quarterly payment to be deposited in a special bond redemption fund until the sum of \$80,000 has been attained and additional quarterly deposits in a bond and interest redemption fund account to cover current principal and interest maturities. The Village currently has \$72,163 in this account.

For the 1996 Issue, Bond Ordinance No. 432 and all provisions of Ordinance No. A-26, except that in the event the Outstanding Bonds are no longer outstanding the provisions requiring the consent of Farmers Home Administration no longer apply. Bond ordinance No. A-26 requires the Bond Reserve Account be further increased by the quarterly deposit of funds beginning July 1, 1996 and ending April 1, 2005 until another sum of \$80,000 has been attained. The Village currently has \$114,121 in this account.

Changes in bonds payable were as follows:

	Balance 2/29/04	Additions	Payments	Balance 2/28/05	Due Within One Year
<u>Governmental Activities:</u>					
1996 Downtown Development Bonds (Limited Tax General Obligation Bonds)	\$ 160,000	\$	\$ 15,000	\$ 145,000	\$ 15,000
<u>Business-type Activities:</u>					
1996 Water Supply and Sewage Disposal Revenue Bonds	\$ 555,000	\$	\$ 30,000	\$ 525,000	\$ 35,000
1996 Water Supply and Sewage Disposal Revenue Bonds	655,000		45,000	610,000	50,000
2003 Sewage Disposal System Revenue Bonds	4,432,000	642,000	22,000	5,052,000	24,000
	<u>\$ 5,802,000</u>	<u>\$ 642,000</u>	<u>\$ 97,000</u>	<u>\$ 6,187,000</u>	<u>\$ 109,000</u>

**VILLAGE OF KALKASKA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued**

**B. Liabilities – Continued**

**2. Notes Payable**

Governmental Activities:

Note payable – Michigan Department of Transportation, annual

Payments of \$6,951, including interest at 4.41%. Matures July 2009 \$ 30,643

Business-type Activities:

Note payable – Michigan Economic Development Corporation, The Village can earn credits of \$3,323 toward the repayment of the loan for each new job created within the Kalkaska Industrial Park through February 28, 2006. Credits may not exceed 50% of the loan balance plus accrued interest. Interest accrues at 5%. Principal and interest payments commence on May 1, 2005. As of February 28, 2005, no credits have been earned.

206,350

Note payable – Kalkaska County Industrial Development Corporation, repayment based on sale of lots in the Kalkaska Industrial Park. Upon the sale of each lot 30% of the net proceeds shall be paid to the mortgagor until 70% of the purchase price has been paid, then 100% of the net sale price shall be paid to the mortgagor until paid in full. There will be no interest charged on any part of the unpaid balance

71,179

\$ 277,529

The Note payable – MEDC does not amortize until May 1, 2005. Note payable (Michigan Department of Treasury) matures as follows:

2005	
2006	5,578
2007	5,829
2008	6,091
2009	6,365
2010	<u>6,780</u>
	<u>\$ 30,643</u>

**VILLAGE OF KALKASKA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued**

**B. Liabilities - continued**

**3. Capital lease payable**

The Village has one capital lease payable outstanding as of February 28, 2005. The asset is recorded in the balance sheet under construction in progress.

Assets under capital lease payable	\$ 124,430
Accumulated amortization as of 2/28/05	<u>6,913</u>
Net assets under capital lease	<u>\$ 117,517</u>

The liability for the capital lease is recorded in the Sewer fund.

Capital lease payable	<u>\$ 94,633</u>
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Future minimum lease payments are as follows:

2006	\$ 29,120
2007	29,120
2008	29,120
2009	19,413

**4. Risk management**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Village has purchased commercial insurance for medical benefits claims and participates in the Michigan Municipal League & Property Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation.

This policy complies with Act 294, P.A. 1972, as amended.



**VILLAGE OF KALKASKA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued**

**C. Interfund Transactions**

Following is a description of the basic types of interfund transactions made during the year and the related accounting policy:

Transactions for services rendered or facilities provided; these transactions are recorded as revenue in the receiving fund and expenditures in the disbursing fund.

Transactions to transfer revenue or contributions from the fund budgeted to receive them to the fund budgeted to expend them; these transactions are recorded as transfers in and transfers out.

Interfund receivables or payables as of February 28, 2005 were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 15,792	\$ 14,540
Local Street Fund	17,240	2,062
Debt Service Fund	2,192	
Water Fund		2,700
Trust & Agency Fund		15,195
DDA		727
	<u>\$ 35,224</u>	<u>\$ 35,224</u>

Interfund transfers consisted of the following transactions:

**General Fund - Transfers Out:**

To: Trust & Agency – Postretirement benefit fund	\$ 32,000
Debt service fund	16,468
From: General Fund	<u>(48,468)</u>
Total	<u>\$</u>

**VILLAGE OF KALKASKA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4: SEGMENT INFORMATION FOR THE ENTERPRISE FUNDS**

The Village maintains two Enterprise Fund which provides water and sewer services. Segment information for the year ended February 28, 2005 is as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>
Operating revenues (including interest)	\$ 220,816	\$ 792,011
Depreciation	63,846	83,286
Operating income (loss)	(30,385)	329,769
Change in net assets	329,960	74,687
Property, plant, and equipment Additions	402,436	339,961
Net working capital	279,554	1,167,183
Total assets	2,260,289	8,433,749
Bonds outstanding	462,800	5,724,200
Net assets	1,716,787	2,312,817

**NOTE 5: ACCUMULATED UNPAID SICK PAY BENEFIT AMOUNTS**

The Village policy allows each employee to accumulate the equivalent of a maximum sick time of 600 hours. At current rates, the Village, as of February 28, 2005, had accrued \$63,840 of sick and vacation pay which is recorded in the Village's Payroll Fund.

**NOTE 6: EMPLOYEES RETIREMENT SYSTEM**

**A. Plan Description**

The Village has an agent multi-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS), administered by the State of Michigan. The MERS was organized pursuant to Act No. 427, Public Acts 1984, as amended, and the Constitution of the State of Michigan. The Village has no administrative responsibility for the plan. The Michigan Municipal Retirement System issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing Municipal Employee Retirement Systems of Michigan, Lansing, Michigan 48917 or calling (517) 622-4401.

**VILLAGE OF KALKASKA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6: EMPLOYEES RETIREMENT SYSTEM - Continued**

**B. Funding Policy**

The plan provides for vesting of benefits after 10 years of credited service for all full-time employees. Effective March 1, 1999 all full-time police officers are able to obtain tenure after six years of full-time service, excluding the police chief. Participants may elect normal retirement at age 60 with 10 or more years of service. The plan also provides for early retirement at age 55 with 15 or more years of service, and at age 50 with 25 or more years of service. Election of early retirement is subject to reduction of benefits as outlined below.

The retirement allowance is reduced ½% of 1% for each complete month retirement benefits are available. The plan provides that the employer/employee contribute amounts necessary to fund the actuarially determined benefits. The Village makes employer contributions in accordance with funding requirements determined by MERS' actuary, until such time as the contributions exceed 9% of covered payroll whereon the Village is directed to make withholdings from salaries and wages of eligible employees and forward these to MERS. The MERS' actuary uses the entry age normal actuarial cost method.

**C. Annual Pension Costs**

The Village's pension cost for the fiscal year ending February 28, 2005, 2004 and 2003 was \$72,075, \$57,774 and \$82,587 respectively. The required contribution was determined as part of December 31, 2004 actuarial valuation using the entry age normal actuarial cost method.

The significant actuarial assumptions to be used to compute the actuarial accrued liabilities are as follows: (1) the entry age normal actuarial cost method of valuation was used in determining age and service benefit liabilities and normal cost; (2) an 8% rate of return on investment of present and future assets was used based on estimated long-yield considering (a) the nature and mix of current and expected investments; and (b) the basis used to value those assets; (3) projected salary increases are based on 4.5% raises for merit, seniority, and inflation rate allowances. Benefits will not increase after retirement except that some participants will receive cost of living allowances. Unfunded accrued liabilities are amortized over 40 year period reduced by one year until it reaches 30.

**D. Trend Information**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Actuarial value of assets	\$ 2,282,273	\$ 2,224,991	\$ 2,113,286
Actuarial Accrued Liability (entry age)	3,381,701	3,095,480	2,705,466
Unfunded Actuarial Accrued Liability (UAAL)	1,099,428	870,489	592,180
Funded Ratio	67.5%	71.8%	78.1%
Covered Payroll	513,246	504,360	539,857
UAAL as a percent of covered payroll	46.68%	57.94%	1.09%

**VILLAGE OF KALKASKA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7: POSTRETIREMENT PLAN OTHER THAN PENSIONS**

The Village has a postretirement plan other than pensions for health insurance coverage. For Permanent employees - salaries, hourly and appointed the plan provides as follows:

Employees 55 years of age or older that retire with at least fifteen (15) years of service with the Village of Kalkaska shall receive family health insurance coverage for a period of three years - paid in full by the Village. Specifically named employees are to receive lifetime hospitalization on both employee and spouse, paid in full by the Village in addition to the three (3) years family coverage and applies only to employees who have worked the required number of years and retire at age 55 or older. In case the eligible employee predeceases the spouse, the spouse will continue to receive this benefit for their lifetime.

For Police Department employees, the plan provides:

Employees 55 years of age or older that retire with at least fifteen (15) years of service with the Village of Kalkaska shall receive existing health insurance paid in full by the Village for life.

The Village has established a separate fund to account for the financing of the plan. Monies were transferred in 2005 to the fund in the amount of \$32,000. Interest earned on these monies are being maintained in the Fund. The Fund had accumulated \$412,387 as of February 28, 2005. Any amounts not available in the Fund to meet costs will be the general obligation of the Village. The Village has not accrued any liability under the plan at February 28, 2005. At February 28, 2005, the Village had five retirees participating in the plan. There were no expenses incurred or reflected, by the Village, in the financial statements for the year ended February 28, 2005.

**NOTE 8: EMPLOYEE BENEFIT PROGRAM**

The Village adopted an employee benefit program effective October 1, 1990. The intention of the Village is that the Plan qualify as a "Cafeteria Plan" within the meaning of Section 125 of the Internal Revenue Code of 1986, as amended, and that the benefits which an Employee elects to receive under the Plan be includable or excludable from the Employee's income under Section 125(a) and other applicable sections of the Internal Revenue Code of 1986, as amended.

Each eligible employee may elect to have the amount of their employer contributions applied to any one or more of a health insurance and/or cash benefit.

**REQUIRED SUPPLEMENTARY INFORMATION**

**VILLAGE OF KALKASKA**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>				
Taxes	\$ 542,237	\$ 591,287	\$ 544,076	\$ (47,211)
Licenses and permits		100		(100)
State grants	215,700	215,950	196,600	(19,350)
Contributions from local units	5,900	5,920	5,900	(20)
Charges for services	14,000	12,350	3,399	(8,951)
Fines	12,000	12,000	11,979	(21)
Interest, rents, royalties	13,500	40,435	35,130	(5,305)
Other	14,500	2,880	2,945	65
<b>TOTAL REVENUES</b>	<b>817,837</b>	<b>880,922</b>	<b>800,029</b>	<b>(80,893)</b>
<b>EXPENDITURES:</b>				
Current:				
Legislative	51,370	48,377	41,876	6,501
General government	158,435	164,960	123,581	41,379
Public safety	445,827	460,427	453,475	6,952
Public works	79,108	92,265	91,559	706
Recreation	15,676	18,576	14,665	3,911
Other	59,870	74,539	60,770	13,769
Debt service:				
Principal	5,226	5,226	5,338	(112)
Interest	1,725	1,725	1,614	111
<b>TOTAL EXPENDITURES</b>	<b>817,237</b>	<b>866,095</b>	<b>792,878</b>	<b>73,217</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>600</b>	<b>14,827</b>	<b>7,151</b>	<b>(7,676)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in (out)		(16,468)	(48,468)	(32,000)
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ 600</b>	<b>\$ (1,641)</b>	<b>(41,317)</b>	<b>\$ (39,676)</b>
<b>FUND BALANCE, beginning</b>			<b>199,204</b>	
<b>FUND BALANCE, ending</b>			<b>\$ 157,887</b>	

**VILLAGE OF KALKASKA**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
**MAJOR STREET FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
State grants	\$ 113,000	\$ 153,200	\$ 151,552	\$ (1,648)
Charges for services	6,000	7,000	6,592	(408)
Interest	1,310	3,010	2,607	(403)
Other			24	24
TOTAL REVENUES	120,310	163,210	160,775	(2,435)
EXPENDITURES:				
Public works:				
Highways, streets and bridges:				
Routine maintenance	23,394	37,594	27,570	10,024
Street maintenance	45,700	53,000	32,572	20,428
Traffic service	5,335	5,935	4,667	1,268
Winter maintenance	31,959	52,759	39,104	13,655
Roadside parks	4,078	4,078	3,118	960
Administrative	9,331	9,331	8,934	397
TOTAL EXPENDITURES	119,797	162,697	115,965	46,732
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 513	\$ 513	44,810	\$ 45,323
FUND BALANCE, beginning			282,398	
FUND BALANCE, ending			\$ 327,208	

**VILLAGE OF KALKASKA**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
**LOCAL STREET FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>				
Taxes	\$ 38,914	\$ 40,014	\$ 35,995	\$ (4,019)
State grants	40,000	58,700	55,367	(3,333)
Charges for services	6,000	6,000		(6,000)
Interest	1,000	4,000	2,073	(1,927)
Other		10,050	7,503	(2,547)
<b>TOTAL REVENUES</b>	<u>85,914</u>	<u>118,764</u>	<u>100,938</u>	<u>(17,826)</u>
<b>EXPENDITURES:</b>				
Public works:				
Highways, streets and bridges:				
Routine maintenance	21,377	29,177	16,567	12,610
Street maintenance	40,200	46,700	15,741	30,959
Traffic service	3,170	3,170	1,009	2,161
Winter maintenance	20,849	24,570	24,005	565
Administrative	9,097	15,147	9,699	5,448
<b>TOTAL EXPENDITURES</b>	<u>94,693</u>	<u>118,764</u>	<u>67,021</u>	<u>51,743</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(8,779)</u>		<u>33,917</u>	<u>33,917</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in (out)	<u>8,779</u>			
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<u>\$</u>	<u>\$</u>	<u>33,917</u>	<u>\$ 33,917</u>
<b>FUND BALANCE, beginning</b>			<u>150,933</u>	
<b>FUND BALANCE, ending</b>			<u>\$ 184,850</u>	



**VILLAGE OF KALKASKA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**NOTE 1 – BUDGETARY COMPARISON SCHEDULES**

The Village of Kalkaska is not legally required to present budgetary information for debt service funds. Accordingly, the budgetary comparison schedules for the DDA Debt Service fund is not required.

**SUPPLEMENTARY DATA SECTION**

**VILLAGE OF KALKASKA**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes	\$ 591,287	\$ 544,076	\$ (47,211)
Licenses and permits	100		(100)
Federal grants			
State grants	215,950	196,600	(19,350)
Contributions from local units	5,920	5,900	(20)
Charges for services	12,350	3,399	(8,951)
Fines	12,000	11,979	(21)
Interest, rents, royalties	40,435	35,130	(5,305)
Other	2,880	2,945	65
TOTAL REVENUES	880,922	800,029	(80,893)
EXPENDITURES:			
Legislative:			
Village Council	48,377	41,876	6,501
General government:			
Administrative	91,277	81,713	9,564
Municipal building	71,983	40,315	31,668
Other buildings & ground activities	1,700	1,553	147
Public safety:			
Police department	460,227	453,475	6,752
Fire	200		200
Public works	92,265	91,559	706
Recreation:			
Recreation	300		300
Parks	18,276	14,665	3,611
Other:			
Insurance and bonds	25,000	18,306	6,694
Parking lots	14,810	13,223	1,587
Airport	34,729	29,241	5,488
Debt service:			
Principal	5,226	5,338	(112)
Interest	1,725	1,614	111
TOTAL EXPENDITURES	866,095	792,878	73,217
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	14,827	7,151	(7,676)

**VILLAGE OF KALKASKA  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2005  
(CONTINUED)**

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES (from previous page)	\$ 14,827	\$ 7,151	\$ (7,676)
OTHER FINANCING SOURCES (USES): Operating transfers in (out)	<u>(16,468)</u>	<u>(48,468)</u>	<u>(32,000)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	<u>\$ (1,641)</u>	(41,317)	<u>\$ (39,676)</u>
FUND BALANCE, beginning		<u>199,204</u>	
FUND BALANCE, ending		<u>\$ 157,887</u>	

**VILLAGE OF KALKASKA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
FEBRUARY 28, 2005**

	Special Revenue			Capital Projects	Total Nonmajor Governmental Funds
	Drug Enforcement	Justice Training	Total	Village Improvement	
Cash	\$ 3,298	\$ 3,399	\$ 6,697	\$ 23,941	\$ 30,638
<b>TOTAL ASSETS</b>	<b>\$ 3,298</b>	<b>\$ 3,399</b>	<b>\$ 6,697</b>	<b>\$ 23,941</b>	<b>\$ 30,638</b>
<b>LIABILITIES &amp; FUND BALANCE</b>					
<b>LIABILITIES</b>					
Accounts payable	\$	\$ 105	\$ 105	\$	\$ 105
Due to other funds		124	124		124
<b>TOTAL LIABILITIES</b>		<b>229</b>	<b>229</b>		<b>229</b>
<b>FUND BALANCE</b>					
Unreserved:					
Undesignated	3,298	3,170	6,468	23,941	30,409
<b>TOTAL FUND BALANCE</b>	<b>3,298</b>	<b>3,170</b>	<b>6,468</b>	<b>23,941</b>	<b>30,409</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b>\$ 3,298</b>	<b>\$ 3,399</b>	<b>\$ 6,697</b>	<b>\$ 23,941</b>	<b>\$ 30,638</b>

**VILLAGE OF KALKASKA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	Special Revenue			Capital Projects	Total Nonmajor Governmental Funds
	Drug Enforcement	Justice Training	Total	Village Improvement	
REVENUES:					
State grants		\$ 1,128	\$ 1,128	\$	\$ 1,128
Interest	44		44	7	51
TOTAL REVENUES	44	1,128	1,172	7	1,179
EXPENDITURES:					
Public safety & police	482	1,383	1,865		1,865
TOTAL EXPENDITURES	482	1,383	1,865		1,865
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(438)	(255)	(693)	7	(686)
FUND BALANCE, beginning	3,736	3,425	7,161	23,934	31,095
FUND BALANCE, ending	\$ 3,298	\$ 3,170	\$ 6,468	\$ 23,941	\$ 30,409

**VILLAGE OF KALKASKA**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**DOWNTOWN DEVELOPMENT AUTHORITY - A COMPONENT UNIT**  
**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes	\$ 62,253	\$ 100,021	\$ 37,768
Interest	4,090	4,563	473
Other revenue	1,100	280	(820)
TOTAL REVENUES	67,443	104,864	37,421
EXPENDITURES:			
Public works:			
Highways, streets, and bridges:			
Administration	52,550	8,298	44,252
TOTAL EXPENDITURES	52,550	8,298	44,252
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 14,893	96,566	\$ 81,673
FUND BALANCE, beginning		250,007	
FUND BALANCE, ending		\$ 346,573	

**VILLAGE OF KALKASKA  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
TRUST AND AGENCY FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2005**

**Combined**

	Balance February 28, 2004	Additions	Deductions	Balance February 28, 2005
<b>ASSETS</b>				
Cash	\$ 475,223	\$ 895,965	\$ 913,817	\$ 457,371
Amounts to be provided by other funds	41,257		7,206	34,051
<b>TOTAL ASSETS</b>	<u>\$ 516,480</u>	<u>\$ 895,965</u>	<u>\$ 921,023</u>	<u>\$ 491,422</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 108	\$	\$ 108	\$
Accrued liabilities	69,783	853,624	859,567	63,840
Due to other funds	15,195			15,195
Amount provided by other funds and interest earned	431,394	42,341	61,348	412,387
<b>TOTAL LIABILITIES</b>	<u>\$ 516,480</u>	<u>\$ 895,965</u>	<u>\$ 921,023</u>	<u>\$ 491,422</u>



**VILLAGE OF KALKASKA  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
TRUST AND AGENCY FUND  
FOR THE YEAR ENDED FEBRUARY 28, 2005**

**Payroll Fund**

	Balance February 29, 2004	Additions	Deductions	Balance February 28, 2005
<b>ASSETS</b>				
Cash	\$ 42,521	\$ 853,624	\$ 852,361	\$ 43,784
Amounts to be provided by other funds	41,257		7,206	34,051
	<u>\$ 83,778</u>	<u>\$ 853,624</u>	<u>\$ 859,567</u>	<u>\$ 77,835</u>
<b>LIABILITIES</b>				
Accrued liabilities	\$ 69,783	\$ 853,624	\$ 859,567	\$ 63,840
Due to other funds	13,995			13,995
<b>TOTAL LIABILITIES</b>	<u>\$ 83,778</u>	<u>\$ 853,624</u>	<u>\$ 859,567</u>	<u>\$ 77,835</u>

**Post Retirement Benefit Fund**

	Balance February 29, 2004	Additions	Deductions	Balance February 28, 2005
<b>ASSETS</b>				
Cash	<u>\$ 432,702</u>	<u>\$ 42,341</u>	<u>\$ 61,456</u>	<u>\$ 413,587</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 108	\$	\$ 108	\$
Due to other funds	1,200			1,200
Amount provided by other funds and interest earned	431,394	42,341	61,348	412,387
<b>TOTAL LIABILITIES</b>	<u>\$ 432,702</u>	<u>\$ 42,341</u>	<u>\$ 61,456</u>	<u>\$ 413,587</u>

Addition for the Post Retirement Benefit Fund consist of transfers from the General Fund of \$32,000 and interest earned of \$10,341 totaling \$50,931.

**VILLAGE OF KALKASKA**  
**SCHEDULE OF REVENUE BONDS PAYABLE**  
**1996 WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS**  
**FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2005**

**Schedule A**

<u>Interest Rate</u>	<u>Date of Original Issue</u>	<u>Purchaser</u>	<u>Principal Amount</u>
5.25% to 7.20%	June 1, 1996	NBD	\$740,000

<u>Maturity January 1,</u>	<u>Principal Amount</u>	<u>January 1,</u>	<u>Interest Due July 1,</u>	<u>Total</u>
2005				
2006	\$ 35,000	\$ 15,568	\$ 15,568	\$ 15,568
2007	35,000	14,588	13,590	65,156
2008	40,000	13,590	12,430	63,178
2009	40,000	12,430	11,250	66,020
2010	45,000	11,250	9,900	63,680
2011	45,000	9,900	8,550	66,150
2012	50,000	8,550	7,050	63,450
2013	55,000	7,050	5,400	65,600
2014	55,000	5,400	3,750	67,450
2015	60,000	3,750	1,950	64,150
2016	65,000	1,950		65,700
				66,950
	<u>\$ 525,000</u>	<u>\$ 104,026</u>	<u>\$ 104,026</u>	<u>\$ 733,052</u>

**VILLAGE OF KALKASKA  
SCHEDULE OF WATER AND SEWAGE DISPOSAL  
SYSTEM REVENUE BONDS 1975 ISSUE  
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2005**

**Schedule B**

**WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS 1975**

<u>Bond Numbers</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>February 28, 2005</u>
	01/01/96	\$1,350,000			
149-158			5%	01/01/06	\$ 50,000
159-168			5%	01/01/07	50,000
169-179			5%	01/01/08	55,000
180-190			5%	01/01/09	55,000
191-202			5%	01/01/10	60,000
203-214			5%	01/01/11	60,000
215-227			5%	01/01/12	65,000
229-241			5%	01/01/13	70,000
242-255			5%	01/01/14	70,000
256-270			5%	01/01/15	75,000
Total					<u>\$ 610,000</u>

**VILLAGE OF KALKASKA**  
**SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE**  
**1996 DOWNTOWN DEVELOPMENT BONDS**  
**(LIMITED TAX GENERAL OBLIGATION)**  
**FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2005**

**Schedule C**

<u>Interest Rate</u>	<u>Date of Original Issue</u>	<u>Purchaser</u>	<u>Principal Amount</u>
5.10% to 7.00%	May 1, 1996	NBD	\$240,000

<u>Maturity September 1,</u>	<u>Principal Amount</u>	<u>March 1,</u>	<u>Interest Due September 1,</u>	<u>Total</u>
2005	\$ 15,000	\$	\$ 4,019	\$ 19,019
2006	20,000	3,621	3,621	27,242
2007	20,000	3,081	3,081	26,162
2008	20,000	2,541	2,541	25,082
2009	20,000	1,991	1,991	23,982
2010	25,000	1,431	1,431	27,862
2011	25,000	719	719	26,438
	<u>\$ 145,000</u>	<u>\$ 13,384</u>	<u>\$ 17,403</u>	<u>\$ 175,787</u>

**VILLAGE OF KALKASKA**  
**SCHEDULE OF SEWAGE DISPOSAL SYSTEM REVENUE BONDS**  
**FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2005**

**Schedule D**

<u>Interest Rate</u>	<u>Date of Original Issue</u>	<u>Purchaser</u>	<u>Principal Amount</u>
4.5%	July 1, 2004	RDA	\$ 5,154,000

<u>Maturity January 1,</u>	<u>Principal Amount</u>	<u>Interest Due</u>		<u>Total</u>
		<u>July 1,</u>	<u>January 1,</u>	
2006	\$ 24,000	\$ 114,570	\$ 114,570	\$ 253,140
2007	26,000	114,030	114,030	254,060
2008	28,000	113,445	113,445	254,890
2009	30,000	112,815	112,815	225,630
2010	32,000	112,140	112,140	256,280
2011-2015	192,000	549,000	549,000	1,290,000
2016-2020	605,000	510,301	510,301	1,625,602
2021-2025	750,000	434,814	434,814	1,619,628
2026-2030	875,000	344,814	344,814	1,564,628
2031-2035	1,000,000	240,751	240,751	1,481,502
2036-2040	1,080,000	124,088	124,088	1,328,176
2041-2042	450,000	15,188	15,188	480,376
	<u>\$ 5,092,000</u>	<u>\$ 2,785,956</u>	<u>\$ 2,785,956</u>	<u>\$ 10,663,912</u>



Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

May 25, 2005

To the Village Council  
Village of Kalkaska  
Kalkaska, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Kalkaska as of and for the year ended February 28, 2005, which collectively comprise the Village of Kalkaska's basic financial statements and have issued our report thereon dated May 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

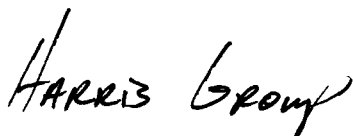
**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Village of Kalkaska's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the Village of Kalkaska in a separate letter dated May 25, 2005.

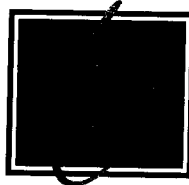
### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Kalkaska' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to the management of the Village of Kalkaska in a separate letter dated May 25, 2005.

This report is intended solely for the information and use of the Village Council, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties.

A handwritten signature in black ink, appearing to read "HARRIS Group". The signature is written in a cursive, flowing style.

Certified Public Accountants



# HARRIS GROUP

Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

May 25, 2005

To the Village Council  
Village of Kalkaska  
Kalkaska, Michigan

**Compliance**

We have audited the compliance of Village of Kalkaska with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended February 28, 2005. Village of Kalkaska's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Village of Kalkaska's management. Our responsibility is to express an opinion on Village of Kalkaska's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Village of Kalkaska's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Village of Kalkaska's compliance with those requirements.



In our opinion, Village of Kalkaska complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended February 28, 2005.

#### **Internal Control Over Compliance**

The management of Village of Kalkaska is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contract and grants applicable to federal programs. In planning and performing our audit, we considered Village of Kalkaska's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more on the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Village Council, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties.

*Harris Group*  
Certified Public Accountants

**VILLAGE OF KALKASKA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED FEBRUARY 28, 2005**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>Federal Grants</u>			
Department of Housing and Urban Development, Passed through the Michigan Economic Development Corporation Community Development Block Grant	14.228	MSC 201019	385,366
<u>Federal Loans/Loan Guarantees</u>			
U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760		<u>642,000</u>
Total Federal Grants and Loans/Loan Guarantees			<u>\$ 1,027,366</u>

**VILLAGE OF KALKASKA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2005**

NOTES:

1. Basis of presentation – The accompanying schedule of expenditures of federal awards includes the grant activity of Village of Kalkaska and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the general purpose financial statements.
2. Waste and Water Disposal Systems for Rural Communities CFDA#10.760 and Community Development Block Grant CFDA #14.228, were audited as a major programs, representing 100.0% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. The Village of Kalkaska had the following loan balances outstanding at February 28, 2005. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>CFDA #</u>	<u>Amount Outstanding</u>
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 5,052,000
Community Development Block Grant/Loan	14.228	206,350

**VILLAGE OF KALKASKA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED FEBRUARY 28, 2005**

**Section I – Summary of Auditors' Results**

**Financial statements**

Type of auditors' report issued:

*Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: \_\_\_ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_ Yes X None reported

Noncompliance material to financial statements noted?

\_\_\_ Yes X No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified: \_\_\_ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_ Yes X None reported

Type of auditors' report issued on compliance for major programs:

*Unqualified*

Any audit finding disclosed that are required to be reported with Section 510(a) of Circular A-133?

\_\_\_ Yes X No

Identification of major programs:

CFDA Number(s)

10.760

14.228

Name of Federal Program

Waste and Water Disposal Systems for  
Rural Communities  
Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

\_\_\_ Yes X No

**Section II – Financial Statement Findings**

None.

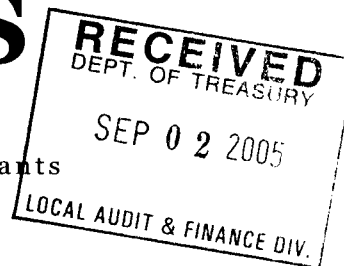
**VILLAGE OF KALKASKA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED FEBRUARY 28, 2005  
(Continued)**

**Section III – Federal Award Findings and Questioned Costs**

None.

**VILLAGE OF KALKASKA  
SCHEDULE OF PRIOR AUDIT FINDINGS**

None



May 25, 2005

To the Members of the Village Council  
Village of Kalkaska  
Kalkaska, Michigan

In planning and performing our audit of the financial statements of the Village of Kalkaska for the year ended February 28, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Village of Kalkaska's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties.

Due to/due from accounts (repeat comment)

The Village uses due to/due from accounts to manage interfund loans. These loans must be repaid on a timely basis. It was noted during the audit that the interfund accounts were not closed out during the year. The Village should develop a policy for the repayment of interfund loans.

Budgeting

It was determined during the audit that the Village is not properly using its budgeted expenditure accounts. The Village will charge a specific expenditure account until the actual expenditure matches the budgeted amount. Then instead of amending the budget, the Village will start charging a different account. This procedure undermines the budgeting process. First, the Village does not get an accurate picture of the true cost of a particular service if some of the expenditures are charged in a different account. Second, budgeting for the next fiscal period is impossible, since you have not charged the proper amount to the expenditure account. Public Act 621, allows for amending the budget when actual expenditures exceed the budget amounts. We recommend charging a particular cost to the appropriate general ledger account and then amend the budget if necessary.

### Chart of Accounts

The State of Michigan has updated its chart of accounts for certain revenue and expenditure categories. Please refer to the State of Michigan "Uniform Chart of Accounts for Counties and Local Units of Governments in Michigan", and make the necessary changes to your chart of accounts. The State will be implementing a general ledger uplink to report annual fiscal data in the future.

### Investment Policy

Governmental Accounting Standards Board has issued Statement #40, *Deposit and Investment Risk Disclosures*, which is effective for the February 28, 2006 annual financial statements. The objective of this statement is to update the custodial credit risk disclosure requirements and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. This statement requires a brief description of the deposit or investment policies that are related to the risks that GASB 40 requires to be disclosed, including Custodial Credit Risk, Concentration of Credit Risk, Interest Rate Risk and Foreign Currency Risk.

Although GASB 40 does not specifically require an Investment Policy, governmental units will certainly want to consider adopting an updated policy. You will need to disclose in your annual audit footnotes:

- the government's investment policy for any specific type of risk to which the district is exposed, or
- the fact that your governmental unit has no investment policy that addresses the specific type of risk to which the district is exposed.

We can offer examples of investment policies which address the requirements of the standard. The Village is generally conservative minded when investing its excess deposits, but a policy which defines that risk level of the Village will protect its investments.

### Post retirement health insurance

The Village provides health insurance to certain retirees. The Governmental Accounting Standards Board has just issued Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. Under the provisions of the standard, employers would need to recognize the cost of those benefits provided to retirees in the period earned. This standard is to be implemented in three phases. The starting phase for the Village of Kalkaska would be for the year ended February 29, 2010.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information and use of the Village Council, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants